



Economic and International Affairs Scrutiny Panel

Mini-Budget Review

Witness: The Minister for Economic Development, Tourism, Sport and Culture

Wednesday, 24th August 2022

Panel:

Deputy M. Scott of St. Brelade (Chair)

Deputy M. Andrews of St. Helier North

Witnesses:

Deputy K.F. Morel of St. John, St. Lawrence and Trinity, The Minister for Economic Development,
Tourism, Sport and Culture

Mr. T. Holvey, Chief Economic Adviser

[9:30]

Deputy M. Scott of St. Brelade (Chair):

Welcome to this hearing of the Economic and International Affairs Scrutiny Panel. If I could draw everyone's attention to the following. All electric devices, including mobile phones, should be switched to silent please. Do we have any members of the public here? I do not believe that is relevant then but we would ask them not to interfere in the proceedings. This hearing will be filmed and streamed live and the recording will be published afterwards. May I confirm, Minister and Mr. Holvey, that you have read and you understand the witness statement that is in front of you? Great.

The Minister for Economic Development, Tourism, Sport and Culture:

I have not read it so, no.

Deputy M. Scott:

Well, you better read it very quickly.

The Minister for Economic Development, Tourism, Sport and Culture:

Thank you.

Deputy M. Scott:

Okay, you are happy with that, good. The aims of this hearing, which is in the context of the mini-Budget is to establish both of your input and advice given in respect of the development of the mini-Budget, to gather some evidence about the consideration into the wider economic impact of the mini-Budget and its longer-term consequences, and the methodology that has been used in relation to setting economic policy and therefore how the economic impact of the mini-Budget has been considered. In this respect, because you probably are aware that a review is being conducted by the Corporate Services Scrutiny Panel into the mini-Budget too, this panel will be looking at the impact of the proposed mini-Budget on economic productivity, bearing in mind the staffing issues within the private business sector and the impact of inflation and taxes on operating costs. So, Minister, please could you outline the input that you have had in the development of the mini-Budget?

The Minister for Economic Development, Tourism, Sport and Culture:

Well, as a member of the Council of Ministers ... the mini-Budget is proposed by the Council of Ministers and so as a member of the Council of Ministers I was involved in the development of the mini-Budget and agreeing it as part of the Council of Ministers.

Deputy M. Scott:

Could you just expand on that in terms of what specific influence you feel that you have had on this content?

The Minister for Economic Development, Tourism, Sport and Culture:

The reduction or the increase in the tax thresholds was absolutely a manifesto proposition of mine. It was written in my manifesto and it was the top line of my manifesto. It was the major component of the mini-Budget.

Deputy M. Scott:

Okay, thank you. So, what advice has been provided by your department and other advisory bodies about the potential short and long-term impact of the measures on economic productivity, bearing in mind the staffing issues within the private business sector and the impact of inflation and taxes on operating costs? I am of course talking about the mini-Budget.

The Minister for Economic Development, Tourism, Sport and Culture:

With regard to the mini-Budget, the advice that we received was principally from the chief economist, to my left, and his department. With regard to staff shortages, et cetera, that was not the target of the mini-Budget. The mini-Budget was very much focused on helping Islanders deal with the cost of living. That is its target and I believe that is what it successfully helps Islanders deal with.

Deputy M. Scott:

Do you consider the link between the 2 though in terms of the cost of living and the staff shortages?

The Minister for Economic Development, Tourism, Sport and Culture:

In what respect?

Deputy M. Scott:

In terms of the actual extent to which the high cost of living and housing costs may have an impact on how many Islanders stay here to help staff industries?

The Minister for Economic Development, Tourism, Sport and Culture:

The high cost of living I have no doubt is one of the reasons people perhaps look at Jersey and then think it is not the place that they would like to come to from a working perspective, because there is a high cost of living. Helping Islanders deal with that high cost of living will not bring the cost of living down. That, I believe in the current environment, is not something that would be achievable through a mini-Budget such as this. So in that respect, I do not believe this mini-Budget will have any impact that would help attract more people to the Island through the cost of living or through dealing with the cost of living. It is not the target of this mini-Budget so I do not expect it to have an impact in that area.

Deputy M. Scott:

Thank you. Mr. Holvey, welcome to Jersey.

Chief Economic Adviser:

Thank you very much.

Deputy M. Scott:

In a similar vein, please would you detail for the panel the advice that you have provided in relation to the mini-Budget and its impact, bearing in mind the panel's focus on economic productivity.

Chief Economic Adviser:

We have been involved in this process throughout. Myself, individually, since I arrived in March and the team for a little bit longer, going back to probably the beginning of the year as well. One of the early meetings I had was what is called the inflationary strategy group. That was in my second week. Some of these items at that point were kicked off about what you can do about inflation and how is that best tackled by Government as a whole. So from that point onwards myself and the team have been quite heavily involved in a lot of this work. What we have been able to do - and I know you probably want to ask about modelling and some of the methodology later on - is help inform some of that policy and some of that debate by both collecting data and showing it but also putting that in good context for the Island as a whole and writing models from afresh, effectively, to try and prove some of the impacts that this has. If you are turning to productivity as a whole, and it is quite a difficult one, the 2 elements in terms of this mini-Budget and productivity are not necessarily linked. I think as the Minister sort of outlined already, the target of this approach of the mini-Budget was to tackle a short-term issue and tackle that for the short term to try and get people into a better state of affairs financially until perhaps the economy can catch up slightly. From a productivity basis, there are lots of elements to that in terms of how that maybe pans out but they are relatively limited. I think if you really want to focus on productivity, one of the things that we might talk about is the minimum wage, which is part of the proposition but not necessarily part of the financial package that is being brought forward. The minimum wage increasing or the proposal to do that has a possibility of perhaps driving productivity a little bit further in the future as you switch away from labour to capital, as labour becomes more expensive. As economic theory would go, people would generally move towards capital, which drives investment and it often drives productivity. So there could be future productivity gains but I think as the Minister outlined it is not necessarily the purpose. I think this is a short-term tactical approach to make sure that people are not feeling the pinch too much and addressing some of the problems that came up through the election with a mind on that longer-term strategy of solving some of the problems that you are talking about at the same time.

Deputy M. Scott:

Thank you. We will be coming back to the minimum wage aspect shortly. But you did mention the target. You were talking about a short-term issue. How confident are you that this is a short-term issue and what do you mean by “short term” please?

Chief Economic Adviser:

In terms of that approach, economics is nearly always done in the short, medium and longer term. So short term is generally sort of defined as the 12-months, maybe 2-year kind of approach. When you are talking longer term in economics you are often talking 5, 10 years-plus, in some of those longer-term approaches. I think, and I cannot talk to the politics of this, but the idea was to try and ensure that people are not feeling the pinch quite so much as they are with the inflationary pressures that are going on at the moment and to try and enable people to receive a bit more money or keep

some of their own money to try and tackle some of those quite acute problems that we have from inflation at the moment. The F.P.P. (Fiscal Policy Panel) has recently produced its medium-term report, and I know you were at that meeting when they did the briefing, and have talked about inflation in that report in terms of how it is expected to peak this year, maybe early next year but probably this year, but probably last a little bit longer than maybe other projections in the future would be. So inflation might still be at 4 per cent in 18 months' to 2 years' time.

Deputy M. Scott:

How do you square that with the press reports that inflation will be increasing in the U.K. (United Kingdom) to a much higher figure than that?

Chief Economic Adviser:

Jersey inflation is quite different to the U.K. inflation. U.K. inflation is largely driven by retail gas and on wholesale gas prices to some extent. We have a very different energy mix on the Island and therefore while normally inflation tracks slightly higher in Jersey for a variety of reasons than it does in the U.K., because of the exceptional nature of these inflationary pressures the Jersey model is that it is coming in lower and that has been proven to be the case so far. The modelling that has been done has proved pretty accurate to what has actually been happening. The inflationary pressures are continuing. We do not know about the global economic and global political outlook for the next few years as well, which might increase some other pressures. But from the best of our knowledge at the moment we would expect inflation to start dipping at the end of this year and coming back to a more normalised level later next year, while staying slightly higher than perhaps the Bank of England's 2 per cent target for a little bit longer.

Deputy M. Scott:

But presumably the U.K. inflation costs will have an impact on the operating costs of businesses in the Island, but you were saying it would not quite match in this way?

Chief Economic Adviser:

Just because of the way the inflation basket works effectively. What is really driving the U.K. basket is that wholesale and in particular retail. So if you look at the price cap, which in the U.K. energy market is in the news probably on a daily basis at the moment, in all honesty, that figure has gone from about £1,200 when I left the U.K. to I think it was around about the £2,000 mark at the last price cap. They are talking about £3,200, £3,300 at the next. Perhaps even over £4,000 into next year. That is a very steep rise. Energy prices make up a relatively large part of the U.K. basket and that will be driving their inflation for quite some time. That does feed through back on to the Jersey concerns but when it is so acute you do expect Jersey to not feel it quite as much as the U.K.

The Minister for Economic Development, Tourism, Sport and Culture:

I think as well today we see in the media the electricity company in Jersey saying that they are not expecting any significant rises over the next 18 months. So again it speaks to that very different energy mix that we have in Jersey compared to the U.K.

Deputy M. Scott:

Yes, I was thinking in terms of the supply to the Island.

The Minister for Economic Development, Tourism, Sport and Culture:

As far as supplies into the Island are concerned, yes, those businesses in the U.K. which use gas or other energy and are part of the supply chain to Jersey, you can expect there to be some cost passed on through that supply chain to Jersey but I think we are talking a very minor percentage of that cost compared to the cost of the overall supply chain that brings goods to Jersey.

Deputy M. Scott:

Do we have a rough idea of that percentage?

The Minister for Economic Development, Tourism, Sport and Culture:

No.

Chief Economic Adviser:

We can certainly go away and get that. It is difficult to feed that through to some extent because you have to distinguish lots of different parts.

Deputy M. Scott:

We can follow up.

The Minister for Economic Development, Tourism, Sport and Culture:

We see that as pretty much negligible.

Deputy M. Scott:

Can I just interrupt the proceedings for a moment because we have been joined by members of the public and I was just giving a notice earlier on? So please could you check your electronic devices like mobile phones have been switched to silent? Welcome to our proceedings, by the way. I would ask that you do not interfere in the proceedings and once the hearing is closed just please leave quietly. Thank you very much. Sorry, did you have anything else to say at this point? Mr. Holvey, I just wanted to know at what point in the process of developing the mini-Budget was your advice sought by the Council of Ministers please?

Chief Economic Adviser:

I would like to say, I am pretty sure I would say, that I was involved throughout. As I say, we started some of this work during the last Government and as part of the last chair of the C.S.S.P.'s (Corporate Services Scrutiny Panel) request to set up an inflationary officers group I chaired that group as well. That was looking at inflation from 2 aspects: how you might control inflation on the Island and how you might mitigate against it. Controlling inflation is very difficult because we do not have many other tools in the same way that the U.K. Government or an interest rate setter would do a lender of money supply. The mitigations were starting to be looked at from that point onwards and then following the new Government, from almost day one, quite a keenness to understand the economic situation as it is, some of the economic pressures and working on the cost-of-living budget. I would think myself and my team have been involved pretty much throughout that entire process.

Deputy M. Scott:

Thank you. I am going to ask this question to Mr. Holvey again. The report accompanying the proposition states that: "The policy approach being taken is supported by O.E.C.D. (Organisation for Economic Co-operation and Development) research, which recommends that jurisdictions that can roll out targeted measures to support income should focus on those measures rather than general measures to support prices." Are you able to give more detail about the O.E.C.D. recommendations please that are referred to in the report?

Chief Economic Adviser:

Absolutely. The O.E.C.D. recommendations are basically to target it where needed, not to cause future inflationary pressures as well.

[9.45]

I think one thing that I would like to point out about the O.E.C.D. report, and other sort of world-based reports like this, they are targeted at a certain type of economy and a certain type of jurisdiction. The O.E.C.D. members are generally very wealthy but also generally large complex economies as well. Jersey is obviously very wealthy but not as large in terms of population and in terms of the size of its economy as well. So some of those sort of World Bank/O.E.C.D. recommendations are not always relevant to a jurisdiction quite of this size. That said, I think the O.E.C.D. ones are probably at this time and this nature quite relevant. I think the budget has tried to address that sort of timely nature and doing what it can within existing legislative frameworks and targeted that where most needed. Again I think you probably want to ask about modelling later but we did a considerable amount of modelling on that to try and ensure and prove that this is as targeted as it possibly can be given particularly the levers that are available in the short period of time.

Deputy M. Scott:

You mentioned being part of the inflation group. So consideration was given to the inflationary impact too?

Chief Economic Adviser:

It was. So the mini-Budget is not just some sort of financial work. There are some recommendations in there as well. I think one of the biggest ones that is alluded to is the area of rent increases and how a lot are made by R.P.I. (retail price index) increases. I think one of the biggest elements that we would be advising on is that is probably one of the biggest inflationary measures that could happen if those rents did go up by R.P.I. Rent itself forms a very large part of the inflationary basket on the Island and if that increased by between 8 per cent and 10 per cent of R.P.I. you would automatically see a considerable increase in R.P.I. next year just from that alone. So inflationary pressures were absolutely taken into account while we doing this. Sometimes, and again I know you will want to talk about modelling, difficult to model but knowing and being aware of the basket and how that is made up is a very important part of that but predicting behaviour is sometimes a little bit difficult with this. What we do think from the inflation point of view, we model disposable income. We do not believe that disposable incomes will increase dramatically from this and therefore increase aggregate demand. That is aggregate demand that you will be thinking of being inflationary from this point of view in terms of the sort of demand-pull pressures from economics rather than the cost pushing supply side pressures at the moment. When doing this work we are ensuring that it was as targeted as possible. We do not think it should be overtly inflationary, while at the same time we have been talking through it, not being anti-inflationary. That is a different element. But we do not see it as being overtly inflationary in terms of its approach.

Deputy M. Scott:

In respect of the O.E.C.D. recommendations we may well come back to you just to ask you to point us to the particular recommendations. Moving on, this was a question to the Minister but Mr. Holvey may wish to contribute as well. This panel is keen to understand how the Government is developing its economic strategies and the data and modelling that is being used in general and on specific policies, in this case the impact of the mini-Budget. In relation to the advice you have given on the development of the mini-Budget, what methodology were you using and can you provide us with information about the data and modelling used to give such advice? So perhaps you could just give us a rough description here; we might ask you to send more details in writing.

The Minister for Economic Development, Tourism, Sport and Culture:

Are you asking Mr. Holvey or myself?

Deputy M. Scott:

Whoever feels more ...

The Minister for Economic Development, Tourism, Sport and Culture:

Because Mr. Holvey is much more aware of the particular methodologies that went behind it.

Deputy M. Scott:

That is fine, Minister. Thank you.

Chief Economic Adviser:

In terms of the methodology, there is a principle I think that was obviously set by Ministers again, sort of targeted and timely and, if necessary, temporary as well. So if there were any problems that it could be amended within itself. We did a considerable amount of modelling in terms of the methodological approach that we did. In particular on the impacts of households and on disposable income. So we had to model effectively from scratch some of the disposable income that we would expect to see in certain households. Obviously there are a lot of assumptions having to be made around that. We have to talk in generalisations despite trying to be as granular in detail as we possibly can be. That work tried to ensure we understood what inflationary impacts were happening on each individual household within what they were spending by using the basket of goods and what pressures that they would like to see. But then also what the impacts would be on those types of households with different salaries, different types of income, whether that is income support or through salaried and waged areas, and ensure that we understood what the impact of these policies would be in terms of extra money into people's pockets or reduction on a tax burden, which means that they keep some of that money themselves as well. So that modelling was done. It was done at considerable pace because we have delivered this quite quickly, and I think some very good work was done. It was done iteratively so we were able to change it quite quickly as policies evolved and some of the thinking evolved. I had to look at a number of obviously policies as we were working through as well. All of which was then helped to inform both informally discussions with Ministers and more formalised discussions as well to the extent where we had a reasonable idea of what some of those impacts would be on people from a variety of different areas, and we had to obviously build in certain assumptions around what we thought interest rates were going to happen. F.P.P. advice on that and inflation as well as what the actual impacts would be of some of this, and quite a lot of modelling was done to inform the debate.

Deputy M. Scott:

So the data sources?

Chief Economic Adviser:

All sorts of different data sources as well as some assumption, so most of it drawn from Jersey statistics. The F.P.P. is a very rich vein of assumptions as well. I think one of the things that economies do across the world - this is not just a Jersey issue - is try and plug some of those data gaps using assumptions, using good logic and feeding things through to make sure that we have as full a picture as possible. I have never worked in a jurisdiction or any organisation where data is 100 per cent perfect, and that is just the nature of what we have to work with nearly all the time outside of research setting effectively. So we have had to ensure that we can plug that with very sensible assumptions. From my experience, this work is a very solid piece of work that has been done. It is proportionate to the timing that we had and the amount of work that we needed to do and is able to inform policy decision and policy making.

The Minister for Economic Development, Tourism, Sport and Culture:

Quite simply, I place on record my gratitude to the economy team because they did work building models from scratch specifically for the Jersey environment because, as you can imagine, there is no kind of off-the-shelf version of Jersey economic data that you can go to. Because the economics team in Jersey, full stop, is a relatively new team, they are building their capability as we speak. It is an ongoing process. So given the demands of the new Government in terms of them wanting to deliver a mini-Budget to help people deal with the cost of living but wanting that to be informed by as good a set of evidence and data that we can, the economy team really came through and they did a fantastic job in doing that.

Chief Economic Adviser:

Could I just add, it was not just the economics team? It was very much a cross-government piece of work from the policy unit, finance team and a number of different officers with specialised areas as well. It definitely was not just done ... we obviously did the economic modelling side of it, but there was financial work that went alongside it, policy work as well.

Deputy M. Scott:

Thank you and thank you for the work that you have done. So you are building models from scratch and you have involved other policy advisers. Before we move on, and probably we will come back to you to ask you more specific questions because we probably could take all day talking about models. But the question I have for you: are you actually using new technology like particular A.I. (artificial intelligence)? With these models is it something that you have a need for or what is going on?

The Minister for Economic Development, Tourism, Sport and Culture:

If I could leap in. As I just said, the Economy Department is a young department. There is data missing in terms of Jersey just does not collect lots of data. This is an ongoing problem that I know

the past Government, this Government are trying to get on top of. But, please do correct me if I am wrong, certainly no. As I understand it there is no artificial intelligence or that level of technology involved. I believe that would take us probably years to engage with that given where Jersey's I.T. (information technology) capabilities are at the moment.

Deputy M. Scott:

You said you believe it might take years but have you already set some sort of path in terms of the strategy of improving this situation, in terms of the missing data and the manner in which you model?

The Minister for Economic Development, Tourism, Sport and Culture:

I think there is no one data policy at the moment but it is something that the Government is aware of and, as I said, the past Government was as well. I think that whether it is different individual departments, different policy areas, are very aware of the areas of data that they are missing and therefore the holes that they need to plug. So while there is not - I do not believe there is one overarching data strategy for the Government - it is definitely something that all of Government is very aware of.

Deputy M. Scott:

The panel will probably come back to you to ask a bit more about those missing areas, if we may. I am going to pass questioning on to Deputy Andrews, to talk about part (e) of the propositions.

Deputy M. Andrews of St. Helier North:

In regard to part (e) of the proposition, I was just wondering in terms of the consultation process with offshore retailers. Could that be explained to the panel in regard to what has been happening in regard to dialogue so far?

The Minister for Economic Development, Tourism, Sport and Culture:

With regards to the mini-Budget?

Deputy M. Andrews:

Yes, please.

The Minister for Economic Development, Tourism, Sport and Culture:

Given that this mini-Budget came out within weeks of the Government forming I do not believe there was a particularly concerted consultation process.

Deputy M. Andrews:

But in regard to the postponement of the implementation.

The Minister for Economic Development, Tourism, Sport and Culture:

Yes, I do not believe there was a particular consultation process with regard to the postponement.

Deputy M. Andrews:

Do you know in regard to how many offshore retailers we are looking at here in regards to the implementation impacting?

The Minister for Economic Development, Tourism, Sport and Culture:

No, I do not think so.

Deputy M. Andrews:

It is not a figure you have to hand?

Chief Economic Adviser:

That will be something that the Comptroller and those 2 platforms would generally handle.

The Minister for Economic Development, Tourism, Sport and Culture:

So the C.S.S.P. Scrutiny Panel would perhaps be better placed to find out.

Deputy M. Andrews:

Also, as well, in regard to the G.S.T. (goods and services tax) being generated as well, have there been any potential forecasts formulated in this regard?

Chief Economic Adviser:

There were. In terms of G.S.T., we do the modelling for that in something called the Income Forecasting Group, so we have a series of different models that we use to project government revenues in the future year through taxation. The G.S.T. element of that is something that we do look after. Obviously there is a slight postponement. It is quite difficult to say what that sort of *de minimis* change would happen on the Island because a lot of it is behavioural and a lot of it is not quite there in terms of full understanding. It was not seen to be a huge amount over that 6-month period and 0.75 per cent was the number that was touted. From what we built in, we think the *de minimis* change to G.S.T. take in the next year will likely be around just above 1 per cent effectively. But again, from a G.S.T. modelling point we are quite sure of our G.S.T. numbers, it is quite a set model in terms of what it puts in and what comes back out. That is probably one of the biggest areas. We just want to find out how behaviour changes as time goes on because obviously there are a number of different things that might impact in terms of behaviour shifts, modal shifts of purchasing, et cetera. We will be keeping a keen eye on that in the coming months.

Deputy M. Andrews:

Do you think there could be any potential impact with offshore retailers transacting business with Islanders as a result of this implementation?

Chief Economic Adviser:

The tax team looked at that and there were not expected to be any huge impacts on that as well. Again it is a continuation of the status quo in terms of the position right now with a well-touted policy that people understand coming in again in 6 months' time. So it is a behaviour shift of 6 months rather than anything monumental, I would suggest.

The Minister for Economic Development, Tourism, Sport and Culture:

I think that it is important to realise there is no direct economic impact from part (e) of that proposition because it is a maintaining of the status quo. As I understand the thinking and the policy thinking behind it, is at the moment obviously offshore retailers - there are some very, very well-known brand names - they bring goods into Jersey. Islanders shop from those offshore retailers. One of the reasons they shop there is lower pricing. The 6-month delay here means that they are not having to add the 5 per cent on to many of the goods that are brought into the Island. That helps Islanders deal with the cost of living because it maintains that slightly, at times, less expensive or less costly route for bringing goods to the Island for personal consumption. That said, from my own personal perspective, I have long been an advocate of a level playing field for retailers in Jersey. So, from my perspective, a 6-month delay is an acceptable delay to effectively the imposition of G.S.T. on those offshore retailers. It is an acceptable delay but it is something that I would not want to see maintained beyond that because I think that local retailers should be given the level playing field that they need or more of a level playing field than they have had because offshore retailers are not paying G.S.T. So I understand part (e) from the perspective of helping Islanders deal with the cost of living but, from my view, my own personal political view, it is something that should be temporary and I do want to see the Island go to a position where offshore retailers are paying G.S.T. on behalf of their customers.

Deputy M. Scott:

May I just ask a follow-up question? You said that the delay, you estimated that would cost us about 1 per cent of the G.S.T., that is a 6-month ...

[10:00]

Chief Economic Adviser:

Sorry, 0.75 we expect it to be.

Deputy M. Scott:

Just thinking that is half of a year, it just seems a somewhat small amount.

Chief Economic Adviser:

Of the entire G.S.T. the *de minimis* proposals are a small amount of G.S.T. The projection is to be only just over 1 per cent for an entire year. So somewhere between 1 and 1.5 which then leads us to 0.75 for the 6 months.

Deputy M. Scott:

And 1 per cent of what figure?

Chief Economic Adviser:

G.S.T. collects somewhere in the region of about £100 million each year.

Deputy M. Scott:

But the extra figure that you expect.

Chief Economic Adviser:

Sorry, that is of the entire G.S.T.

The Minister for Economic Development, Tourism, Sport and Culture:

0.75 per cent of the entire G.S.T. take is expected to not be collected because of that 6 months. So you are talking about £750,000.

Deputy M. Scott:

Thank you.

Chief Economic Adviser:

That is probably a conservative estimate, to be perfectly honest with you. In terms of what we are trying to do with the tax take is - not all of the time - we try and give a best-case scenario with all economics but it is something along those lines when we are not quite sure we will tend to go more conservative than certainly upside, definitely.

Deputy M. Scott:

We are going to move on to our questions about the minimum wage now. The Employment Forum 2020 report on minimum wage suggested that the sectors that will feel the most impact from increases in minimum wage are agriculture, retail and hospitality. The panel is aware that the

Employment Forum's most recent consultation results have yet to be released but what is your most recent information please on whether those industries remain those likely to be most affected?

The Minister for Economic Development, Tourism, Sport and Culture:

As I understand it, yes. I would actually put those 3 sectors into an order themselves in the main - and I am not saying there are not exceptions, there are always exceptions - hospitality and retail will be less affected by this than the agriculture industry. There are far fewer, as I understand it, hospitality and retail employees paid at the current minimum wage. Many of them are paid above the minimum wage. It is the agriculture sector that is going to be most hard hit by that, and that is something that again in the previous Government and now I am trying to raise the issue of and find ways of helping the agriculture sector deal with the rise in the minimum wage. Because it is painful and what I find wonderful is that the agriculture sector have been very open with us that they want to be able to do this, they want to be able to move to a higher minimum wage and ultimately reach a living wage but to do that they need help. They are in no way trying to say: "Do not do this." They are saying: "You need to help us do this as a Government." That is something I am very engaged with and I want to help them do that.

Deputy M. Scott:

The policy regarding minimum wage seems to be across the board. Does this not merit a more sector specific approach in terms of the application of the minimum wage and the transition to living wage?

The Minister for Economic Development, Tourism, Sport and Culture:

Personally, I think it does. I know only from the previous Government, because to be honest I have not asked the Minister for Social Security of this Government whether she believed the sector specific approach is possible. But I know the previous Minister for Social Security in the last Government always eschewed that option. Always said no. If the minimum wage is right for one sector then it is right for all sectors is essentially what she said. I do understand that from the perspective of principle because especially from a living wage if you say every business should pay a wage that people can live on, which is a perfectly reasonable and good principle, then it is difficult then to say: "Oh but not that sector, but not that sector." So perhaps the way to look at it is not that the minimum wage or the living wage should be applied only to particular sectors. It is that we need to identify those sectors that need help and provide them with that help. That help does not always have to be in pure cash terms. That help can be in different ways. For instance, the agriculture sector uses accommodation. It obviously provides many of its seasonal workers who are the most likely to be on minimum wage with accommodation. The accommodation offset has not been changed over the years to genuinely reflect the value of accommodation in Jersey. At the moment it is about £91 a week. Everybody knows that in Jersey you cannot find accommodation for £91 a

week. So in my view one way we could help the agriculture sector, and it would also be the same for the hospitality if they are providing accommodation for the workers there, is by having an accommodation offset that genuinely reflects the value of accommodation in Jersey.

Deputy M. Scott:

I accept that to some extent you have answered this question with respect to the agriculture industry. In your view, what impact will increasing the minimum wage and the pace at which the living wage is being introduced have on different sectors?

The Minister for Economic Development, Tourism, Sport and Culture:

Most sectors in Jersey, it will not have an impact that is detrimental. Any sector that operates with some staff on the minimum wage then when that sector sees the minimum wage rise there is often a ripple effect through the business. So it is not just that the people on minimum wage see their wages go up. But the staff on the level above see their wages go up by similar amounts and so on throughout the organisation, up to the level of salaried staff. Salaried staff tend to operate in a different way. That though in the agriculture sector, where the margins in the agriculture sector are about 3 per cent, so when you are suddenly putting up the minimum wage by roughly 10 per cent, is about 8.5-9 per cent, then that has a really big impact as it ripples through the organisation. It is one that the agriculture sector is concerned about because for them if we do not provide them with support they see it as an existential threat to their businesses.

Deputy M. Scott:

So accepting that the agriculture industry is a bit of an outlier, we may say, because it obviously has to compete with subsidies outside the Island and it has subsidies within the Island.

The Minister for Economic Development, Tourism, Sport and Culture:

And also, if I could say, does not have the opportunity in the same way that other businesses do to increase the cost of product to their customers. As we know, it is very often supermarkets that define the price that is paid whereas a retail business, to some extent, can increase the cost of its goods that it is selling in a way that a farm business is not able to do.

Deputy M. Scott:

Accepting that the agriculture industry is an outlier, in sectors such as hospitality there are already successful businesses paying the living wage. What is your opinion on whether a delay bringing forward the living wage could provide employers who are paying the minimum wage within that sector with an unfair competitive advantage?

The Minister for Economic Development, Tourism, Sport and Culture:

I do not understand why you refer to there being a delay in bringing in the living wage.

Deputy M. Scott:

Basically, I am saying that within the hospitality industry we are hearing accounts of people paying the living wage, having to pay that.

The Minister for Economic Development, Tourism, Sport and Culture:

Which is excellent.

Deputy M. Scott:

That in fact many of the successful businesses simply are not paying the minimum wage because of the staffing shortage. Therefore if some businesses nevertheless are paying the minimum wage and perhaps, for all I know, that could be being supplemented by income support, might it not be considered as unfair competition because it is basically depriving the more successful businesses of staffing and they have to look outside the Island while Government is subsidising less successful businesses?

The Minister for Economic Development, Tourism, Sport and Culture:

So the argument you are saying is we should go to a living wage immediately?

Deputy M. Scott:

I am not suggesting, I am just asking you the question.

The Minister for Economic Development, Tourism, Sport and Culture:

That there is delay to the bringing in of the living wage and there is no delay to bringing in ...

Deputy M. Scott:

I believe that the Assembly did ask the Economic Forum to look at the transition last year and to explore the extent to which the minimum wage could be moved on to the living wage. To the extent that we have not got that immediately I will describe that as a delay. I am sorry if that was not clear. I am saying that the mini-Budget is focusing on a smallish increase of the minimum wage but in the case of certain sectors this may not be addressing an issue in terms of the perhaps anti-competitive elements of the minimum wage.

The Minister for Economic Development, Tourism, Sport and Culture:

I do not agree that there is a delay to bringing in the living wage because no deadline has been set for the bringing in of the living wage. It is therefore in my view not possible to argue there is a delay in it. But that said, there has been a 19 per cent increase in the past year. If this goes ahead there

will have been a 19 per cent increase in one year in the minimum wage. So I do not think that that is an insignificant move in the rise of the minimum wage. It is slated in this proposition to take it up to £10.80 by early next year. So that again will push the minimum wage much closer to the living wage, which is around £11.20. From my perspective, I do not see it as unfair competition because the rules are set where they are set and if a business is choosing to pay at the moment a living wage that is a good thing and I applaud that business for doing so, but because the rules at the moment state that you can pay the minimum wage it is not unfair competition because the business that is currently paying the living wage could, if it wished to, pay the minimum wage. So I do not see that there can be an accusation of unfair competition or competitive advantage in that respect because they are all playing by the same rules. That is what matters. That is where fairness is found. It is in the rules that are applied.

Deputy M. Scott:

I am talking about actual competition for staff, sorry.

The Minister for Economic Development, Tourism, Sport and Culture:

I appreciate that, and you are saying competition for staff is pushing the wages up. That is fine but what matters, because you were talking about there being an unfairness and an unfair competitive advantage, and I am saying there is no unfair competitive advantage because everybody is playing by the same rules. If the market for labour pushes wages up that is a separate issue. If there is a business which is able to pay the minimum wage in such an environment then it is interesting to understand how they are “beating” the market in those terms. But if they are doing that then that is fine because it is not unfair, because they are playing by the same rules.

Deputy M. Scott:

So you do not accept that Government might be subsidising the living expenses of some staff who are on the minimum wage in the hospitality sector?

The Minister for Economic Development, Tourism, Sport and Culture:

That is a different matter altogether. When the Government is having to pay income support to somebody working in the sector because they are on the minimum wage and minimum wage is not the living wage, I do see that as Government providing support. But that is why I would like, and that is why this Government, the previous Government, and I believe every Government as you move into the future, is committed to getting us to that living wage standard because we do see it as unfair Government support in terms of it is just to support a business. It is not unfair to individual businesses. The agriculture sector is a particular sector where they say: “We cannot do this without Government support” so they are flying the flag and saying: “Look, you want us to do it, we need that support” and so that is open. It is very open. The Government, from my perspective, I sit there

and say: "Yes, I do want to support you doing that" so we are not trying to hide a subsidy, so to speak, however it is done. Whether it is accommodation offsets or any other thing. But as far as whether it is hospitality or retail, where they are not asking for Government support, I do agree with you that not paying a living wage is a form of a government subsidy where income support is used to lift the wages up of those staff but we are also in a period of transition. We are moving people, businesses, quickly towards a living wage faster than has been done. As I said, 19 per cent increase in one year is a large increase. If you were planning your business a year ago and you did not see this 19 per cent increase coming you will not have planned to that 19 per cent increase, so when a 19 per cent increase in any cost comes in that is hard to take and adjust your business planning accordingly. I think you cannot jump to the living wage in one go for fear of just making it unnecessarily difficult for businesses. But at the same time we are pushing them as hard as we believe we can. So moving to £10.80 next year will be a significant increase and very close to living wage.

Deputy M. Scott:

I accept that you and I have been using different terminology because you have mentioned unfair Government support in certain situations. Will you be looking at how to make that fairer?

The Minister for Economic Development, Tourism, Sport and Culture:

Moving to the living wage is ultimately the way to get there but, like I say, you cannot do that in my view in one jump. It does need to be staged and that is the journey we are on. We are moving to the living wage. That is signalled in this proposition.

Deputy M. Scott:

You are looking but that is a very general sort of way of looking at it rather than in terms of the specifics of which businesses are relying on, say, the minimum wage impacts are not so competitive because they will not survive if they pay the living wage. I am just wondering how will the baseline wage increase impact Jersey's low wage economy sectors and could we see some businesses close as a result and, to some extent, is that what perhaps is needed in terms of the problems we have with staffing.

The Minister for Economic Development, Tourism, Sport and Culture:

In my view, the main industry ... I will start again basically. The main industry affected by the rise in minimum wage is the agriculture sector, more than any other. Hospitality and retail in the main, and from speaking to hospitality businesses and retail businesses, the feedback I am getting - in fact it is pretty much 100 per cent of the feedback that I have received from speaking to businesses - is that they all pay above the minimum wage and most of them pay at the living wage or close to it.

[10:15]

I do not believe that moving the minimum wage up in terms of this proposition is going to adversely affect the hospitality or the retail sector. I cannot, as the Minister, write policy for individual businesses. I can go as far as sectors basically. I cannot go as far as the individual businesses. That is not how policy is meant to be written. So it is possible that some businesses in the hospitality and retail sectors may find that their business models are so adversely affected by this wage rise that they decided they cannot move forward and they close down. But I believe as a sector it will not affect them in that way and I believe that, as we have said at the beginning, ultimately Jersey is moving to that living wage position and that is the right thing to do. I have identified as a sector the agriculture sector as one that does need help.

Deputy M. Scott:

Indeed, okay. So do you believe that increases in the minimum wage will have an impact on labour supply and are you satisfied that any displaced labour could be absorbed by other sectors?

The Minister for Economic Development, Tourism, Sport and Culture:

In this environment, absolutely. Any displaced labour from any sector will be absorbed by other sectors. Actually I thought this a few minutes ago, as far as staff shortages are concerned, there is an argument to be made that increasing minimum wage will help attract staff to Jersey because they are going to be paid a living wage and one of the issues we have is the high cost of living in Jersey. So in that sense the rise in minimum wage may help overcome some, although I think it would be a fairly negligible extent, of the staff shortages. I think it may help us attract some people. That is not why this particular part of the proposition was drafted, it was not drafted to deal with staff shortages, it was just drafted to help people deal with the cost of living in Jersey.

Deputy M. Scott:

I have to apologise to Deputy Andrews because I have just realised I have asked a couple of your questions that you are meant to ... if he looked alarmed and thought: "Well, hang on, why is she asking that?"

Deputy M. Andrews:

Just in regard to the aggregation of labour supply. Obviously now there are potentially going to be 2 minimum wage increases for October and for January. So in regard to labour displacement, do you think this is probably going to be an occurrence in particular sectors and, say, particular businesses that you have maybe been in dialogue with?

The Minister for Economic Development, Tourism, Sport and Culture:

I do not believe that we will see much labour displacement as a result of this, no.

Deputy M. Andrews:

No.

The Minister for Economic Development, Tourism, Sport and Culture:

Obviously time will tell and evidence will show but that is ... no, I do not believe there will be, except - and I go back to it - if we were to impose this without help on the agriculture sector. I believe then you could see labour displacement from the agriculture sector, but I do not believe it is going to have particular effect in other sectors. I do not know if you would agree?

Chief Economic Adviser:

There is a potential this might actually help. I think one of the things that we are seeing - and going back to the evidence that we have been able to gather - is that there is a lot of movement between jobs and sectors at the moment to increase salaries rather than salary increases within job. There is a lot of churn and displacement going on as is at this moment in time. This might actually help from that perspective anyway. I think we were seeing not many organisations are paying the minimum wage, we see that on both the jobs websites and a lot of the anecdotally evidence that was collected for the F.P.P. (Fiscal Policy Panel) process as well with the outlier, it is important to say, of agriculture, which I think does stand out. I think the evidence does point to not many organisations paying at this level at the moment and there being significant churn in the economy as well, which is not very helpful for productivity or growth. This might help calm that down slightly.

Deputy M. Andrews:

In relation to empirical research in other jurisdictions when there has been potentially a period of high inflation, say when there have been minimum wage increases, has there been any research conducted in the specific countries, for instance, that you have taken on board and implemented as part of this mini-Budget?

Chief Economic Adviser:

So from my economic background that is something I am aware of, it is not specific research we have done here. In terms of minimum wage, there is a lot of research around that. There was a strong theory, and I am using the U.K. context here rather than the Jersey context, and a strong argument against implementing the minimum wage, that it would actually cause unemployment because it would price people out of a competitive market. The vast, vast majority of research disproves that and suggests that is not the case, likewise with subsequent increases in minimum wage. That does not mean there are not individual outliers, it does not mean that there will not be

some stories ... and, again, I am using a U.K. context as opposed to a Jersey context, some outliers and some people who point to that as being problematic to their organisation and that would not be untrue in certain circumstances, but talking to the sectors and economy as a whole, it is generally a disproven element of what is going on. I think the important thing is, as the Minister outlined, not jumping too high too soon. Using the labour market as it is at the moment as well, most of the evidence points to the fact that most organisations are paying more already than that point as well. I would just point to the U.K. context as well, the T.U.C. (Trades Union Congress) quite timely came out this morning and asked for a minimum wage of £15 per hour, by 2030. They want that done by 2030, which is 8 years away. So even the labour organisations in the U.K. accept and see that growing too quickly too soon ... sorry, too much too soon would actually be problematic. So they are putting 8 years into grow by about 50 per cent.

Deputy M. Andrews:

In regard to the baseline wage increase as well, do you think this could potentially impact prices in regard to local consumerism?

The Minister for Economic Development, Tourism, Sport and Culture:

It is possible, that is the one danger that at the end of the day wage inflation can obviously feed into prices and can become part of the overall inflation price. Again, the O.E.C.D., it is one of their recommendations they want to try or would like to see countries try to avoid wage inflation become structural because that would then create a much larger inflationary problem. At the beginning of this session the chief economist said we expect this to be relatively short term as far as inflation is concerned. If wage inflation becomes a major problem then your overall inflation could become more structural and could become longer term. That is one of the dangers here is that possibility of ... by putting up the minimum wage too quickly, if you were to put it up too quickly, it could feed into prices. What I would say speaks against that is that the evidence we have shows us that actually most businesses in Jersey, outside of agriculture certainly, are paying above the minimum wage already and so will not be even affected by the rise to £10 or the following rise to £10.80; a lot of them are paying above that already so that should not feed into inflation.

Deputy M. Andrews:

Do you know the number of wage labour that this will be potentially benefiting?

The Minister for Economic Development, Tourism, Sport and Culture:

The amount of people?

Deputy M. Andrews:

Yes, so the amount of people who will be seeing a wage increase between the current minimum wage up to £10.80?

The Minister for Economic Development, Tourism, Sport and Culture:

I do not think we do know that.

Chief Economic Adviser:

That is not something we can be aware ... I would not normally expect to be aware of that at this point in time of any economic cycle. The statistics team are working very hard on the census data that they gathered last year and, as time goes on over the next 6 months or so, we will get more information out. That is obviously just a snapshot for 18 months ago already so in terms of time it is not always as useful for that direct question. That would be very difficult question to answer in any jurisdiction I would suggest.

Deputy M. Andrews:

Also as well with the trainee minimum wage, now that was not obviously mentioned as part of the proposition, however has there been any work that has been conducted behind the scenes to make sure that those people who are on the baseline trainee minimum wage are also better off potentially in real terms, if there are going to be wage increases?

The Minister for Economic Development, Tourism, Sport and Culture:

That is a good question but you would have to ask the Minister for Social Security because it is the Minister for Social Security who looks after all the research around the minimum wage. I just do not have access to that.

Deputy M. Andrews:

Okay, thank you very much. Back to you, Chair.

Deputy M. Scott:

There was a follow-up question about have you received any feedback about the impact of the administrative changes required by increasing the minimum wage in January and October and whether this would be problematic.

The Minister for Economic Development, Tourism, Sport and Culture:

The feedback I have received is principally from the agriculture sector. I have not personally received feedback outside of that. I believe you may have had submissions as a panel but ourselves, no.

Deputy M. Scott:

Yes, I will come back to those but generally in terms of your responses I am getting the impression that most businesses are paying above minimum wage in any event. The impact or indeed the benefit that might be obtained perhaps might be more in the agriculture sector but then that is going to have an impact on the sector itself. How do you propose to manage that?

The Minister for Economic Development, Tourism, Sport and Culture:

Well, that is exactly it. That is why I, for the last year, have been advocating support for the agriculture sector. It has so many pressures on it but we will focus here on the minimum wage. The simplest in terms of it is easy to understand is just to help ... pure subsidy, to increase subsidies to the agriculture sector. We know the agriculture sector in Jersey ... the amount of subsidy we give per head of our population to the agriculture sector is tiny compared to all other O.E.C.D. - not just O.E.C.D. - countries, but the Isle of Man. Similarly the Isle of Man pays a much higher level of subsidy to its farmers than we do in Jersey. We are expecting our farmers to compete against highly subsidised businesses around the world while we do not subsidise them and then we say: "By the way, you have to increase your wages to staff as well." That is a recipe for the death of the agriculture sector; it is just that simple. So we can pay them higher subsidies directly or we can, as I said, provide a proper accommodation offset because particularly with seasonal workers they are housed by the farmers themselves. The value of that housing is not being taken into account in the calculation of the minimum wage. That means that farmers are providing ... at the end of the day if you were to say a one-bedroom flat is - let us be generous - £900 a month, that £900 is not properly being taken into account in the calculation of the minimum wage. So the farmer is providing a much higher wage than the minimum wage but we are not recognising it in the way that we count it. That would also be a simple way of helping the farming industry recognise the value of the accommodation they are providing. Other ways would be something like, for instance, for seasonal workers only, social security contributions. I mean because of the way the social security system works for the first 6 months that they are here, and they are only here for 9 months, they receive no benefit from the social security contributions. There has been an argument made, and it is one that I quite like, which is to say that seasonal workers and businesses paying them in agriculture should not pay the social security contributions at all and instead they have to provide private health insurance for those seasonal workers, giving them cover for the whole 9 months but saving the business from paying their social security contribution. That is something that has been put forward and it is an argument I made to the previous Minister for Social Security, it is one she chose not to accept but it is one I will also be seeking to explore with the current Minister for Social Security to judge ... I do not know her view at the moment but it is something I would like to discuss.

Deputy M. Scott:

Are you aware the panel has written to the Minister for Social Security in respect of the social security contributions ... right, okay, because that probably merits some alignment in approach there. Perhaps we should move on to the rental increases that we are experiencing, or at least the way we anticipate they may well increase because of the increase in inflation. As acknowledged in the outlined economy strategy, staffing is a significant concern for many Island businesses and this is further fuelled by the price of accommodation, which is deterring workers coming in and staying in Jersey. In this context, do you believe that the stated intention in the mini-Budget to encourage landlords to avoid inflationary rent increases will have enough impact in terms of helping with this staffing situation?

The Minister for Economic Development, Tourism, Sport and Culture:

Number one, I do not think I have to reiterate this mini-Budget is not aimed at dealing with staff shortages, this mini-Budget is aimed at dealing with cost of living for Islanders principally who are already here in the Island. With regard to asking, politely, landlords to not bring in accommodation rises, I hope landlords listen and I hope they follow that advice. Will it be enough to reverse trends with regard to staff shortages? I have to be honest and say no. There is not a world in which I believe that asking landlords to not pass on R.P.I. rises will suddenly reverse the trend of us losing staff in Jersey and make more people want to come to Jersey. No, I do not. But that also is not the reason that this mini-Budget has been created in the first place. While it will not do that, it was not designed to do that either.

Deputy M. Scott:

Was any stronger measure considered and would you support one in future, even on a temporary basis?

The Minister for Economic Development, Tourism, Sport and Culture:

The stronger measures that I believe were considered to some extent was ... it is about legislation. The only way you could enforce landlords not putting rises on the rent of their accommodation would be legislation. I think that is something that is constantly considered in terms of just wider political debate. I know there are issues with legislation with regard to fixing prices in some way shape or form, and certainly for a mini-Budget, which has been designed and created within a month of a new Government. That is one of the reasons they did not go down that route because you are not going to be able to get that legislation designed and written in time.

[10:30]

If it was written in a month, I would probably have trouble defending it because I cannot imagine legislation to fix prices written in one month would necessarily be particularly good legislation either.

Deputy M. Scott:

Thank you. Just looking at the aspect of this, I will probably get a similar answer, the panel recognises that landlords themselves may face rising interest rates and maintenance costs, however given the inflationary nature of rents rising in line with the currently high R.P.I. rates, do you believe that encouragement will achieve the mission of improved housing and rental affordability set out in the outline economic strategy? In this respect I think the question probably was in relation to business landlords as well, because basically when we talk about R.P.I. increases, it is going to affect businesses as well who rent premises.

The Minister for Economic Development, Tourism, Sport and Culture:

Yes, so commercial rents?

Deputy M. Scott:

Yes.

The Minister for Economic Development, Tourism, Sport and Culture:

Obviously the request that landlords do not raise rents is principally aimed at the accommodation sector, not at commercial rents, but absolutely I would say all landlords, whether they are commercial or domestic, any restraint they can put on their accommodation or their rent rises would be useful because, again, it all just fuels inflation. If a commercial landlord does put their rent up that is going to fuel inflation. Now, as I understand it, most commercial rents - they are very clearly set out - the contract usually will have a break clause after, let us say, 5 years or often you have a 9-year contract with a 5-year break clause. The annual rent rise will be written into that contract and so I very much doubt, given that this is the commercial sphere we are talking about, any landlords would exercise such restraint because it is written into their contract. But if it is R.P.I. rise, as opposed to in excess of R.P.I., then at least the impact on wider inflation should be limited because it is moving with inflation not above inflation.

Deputy M. Andrews:

On the basis of rental increases happening throughout this period ... now of course with a mini-Budget there will be transfer payments being made and they will also be increased but potential rental hikes could be exceeding the transfer payment increase so there could be a lot of fiscal expenditure that is incurred and people will still not be better off.

The Minister for Economic Development, Tourism, Sport and Culture:

Are you talking about commercial rents now or ...

Deputy M. Andrews:

No, this is more for rental dwellings.

The Minister for Economic Development, Tourism, Sport and Culture:

Yes, I understand what you are saying but, as I say, absent legislation to allow us to act, we cannot act any more than just asking politely, which is what we are doing. I genuinely ask landlords, please do refrain from passing on those rise but, as the Chair said, there are interest rate rises which ... you have to think as well if someone, and I know most landlords will probably not have brought their first property when they were in their 20s, but if someone is 40 now and they brought their first property in their 20s - their first rental property - they have only seen low interest rates. They have not seen a high interest rate environment. So suddenly having to pay ... what I am trying to say is all their calculations will have been made likely on very low interest rates. That model has now burst and so I can understand their thinking. They will say: "I have to move because, look, my costs have increased" et cetera, but I have to say to them, for the wider good of Jersey, it will help everyone if they do not pass on those interest rate rises or just the general cost increases if they do not pass it on it will help everyone.

Deputy M. Andrews:

Do you expect these pressures will be, for instance, for households who are living in accommodation where there is an explicit rent, so for instance there is a mortgage that needs to obviously be paid and, of course, with interest rates increasing then obviously it depends on the type of mortgage as well. But would you expect those who are living in accommodation where there is an explicit rent scene that they will be worse off compared to say where there is a household where the landlord, for instance, is an owner and there is no mortgage obligation to be carried through?

The Minister for Economic Development, Tourism, Sport and Culture:

Kind of common sense, so to speak, says that that would be the case. You cannot guarantee it because we cannot talk about individual specifics. But, yes, what you are saying makes sense, if a landlord is heavily mortgaged and the interest rates go up, they are much more likely to pass on those rises than the landlord who perhaps inherited the home that they rent out and does not have to pay any mortgage on it at all.

Deputy M. Andrews:

For instance when we are looking at demand-pull inflation obviously we have partial market failure, it is a real problem with our housing market at the moment, but say landlords who have an implicit rent, they might be capitalising and, of course, they might be seeing the opportunity to increase rents potentially. Not all landlords are good, some are bad; it is a minority. We could potentially be seeing landlords capitalising on a moment where they could be seeing, for instance, a good return of

investments. That could be to the detriment of their household. Is that something that you think potentially could be reflected in policy in future? Obviously we were not able to develop policy in time during this period with the new Assembly.

The Minister for Economic Development, Tourism, Sport and Culture:

Reflecting policy in what way?

Deputy M. Andrews:

In future economic policy, for instance, we could be looking at rental stabilisation as a temporary measure. Of course, obviously, as you mentioned and alluded to just before, it is a very short time period to implement policy, but if there is, say, a future mini-Budget to be in place, would this be something that potentially could happen?

The Minister for Economic Development, Tourism, Sport and Culture:

To be honest, again, you would have to speak to the Minister for Housing and Communities and this where, as the Minister for Economic Development, Tourism, Sport and Culture, my policy areas have their limit. I am not Minister for the economy so as far as rent stabilisation is concerned that is something that is often discussed within the States Assembly itself, it was discussed in Scrutiny last time, I was on the Housing panel and we discussed it then. It is something that could appear in policy if there was the political will and the evidence base to support it. But, honestly, the Minister for Housing and Communities is the person who would be leading that charge.

Deputy M. Andrews:

I know the Chief Minister has already alluded to that she would be in support of dwelling regulation. If the case is dwelling regulation is implemented in future and this mini-Budget is also to be brought forward again, if we are to see similar circumstances, in your role as Minister for Economic Development, Tourism, Sport and Culture how do you perceive dwelling regulation with rental stabilisation? Do you think there could be potentially unintended consequences due to this?

The Minister for Economic Development, Tourism, Sport and Culture:

It is possible and that is certainly the argument that is made against such regulation. When you say "dwelling regulation" I assume you mean licensing of ...

Deputy M. Andrews:

Standards of dwellings.

The Minister for Economic Development, Tourism, Sport and Culture:

We have minimum standards already so we have that dwelling regulation. It exists. It has done for the last few years. We brought it in in the previous Assembly. Have there been any massively negative impacts from bringing that in? I do not think so. We still see roughly 50 per cent of Islanders living in rented accommodation. We have not seen, I do not believe, a massive drop in the amount of accommodation available, although it is always difficult to find the data on this. What we have seen is rents continue to rise, which in itself might be suggestive that there has been a fall in available property but, in general, I would say dwelling regulation has not forced people out of the market as perhaps ... has not forced landlords out of the market, which is perhaps the biggest negative impact that you might expect. The other side of dwelling regulation, which is what I thought you were talking about, was the landlord licensing, which obviously the last Assembly chose not to move forward with. But, again, the arguments against it tend to be about landlords will pull out, there will be fewer rental properties made available. It is very difficult to know whether that will be the case or not because it is so hard to prove a negative. Until you bring the regulation in ... say you were to bring licensing in, it is only at that point that you would find out whether people do leave the market or not as a result. It is a very difficult question to answer. Negative impacts are posited in theoretical discussion of these issues. Whether they would become the actual reality, I do not know.

Deputy M. Scott:

Can I perhaps bring us back to more specific things? Just following up your response regarding housing policy to Deputy Andrews. I think perhaps the question that might rise in the public's mind is the extent to which, given that housing policy affects economic productivity along with matters of population and wages, the extent to which you yourself may be able to influence such a policy, because otherwise there seems to be some sort of possibility for concern that policy is not being evolved holistically and it is not being joined up, which I know is a particular concern of the Chief Minister herself. What sort of work do you anticipate doing in terms of this connection, as it were, between housing and rental prices, both for businesses and for employees?

The Minister for Economic Development, Tourism, Sport and Culture:

The Chief Minister is absolutely right to be concerned about joined-up government. You are absolutely right to be concerned about joined-up government and I think it is one of the challenges that every Government everywhere always faces because a Minister ... any individual Minister is given their realm, let us say, the area in which they operate. That obviously takes the majority of their time but it is just a reality that pretty much any policy area impacts another Minister's policy area. It is how do you get people talking to each other and have the time as well to talk to each other. There are 24 hours in the day and so you are working here in your policy area but there is somebody working down here in an area which impacts yours. It is about finding that out and then finding the time to engage. That just comes down to a team who talk to each other, and we do talk to each other all the time. I am pleased to say there is an excellent team spirit among this Council

of Ministers. I do speak to the Minister for Housing and Communities, the Minister for Housing and Communities speaks to me. We do keep each other abreast as best we can of what is going on in our areas. So from my perspective, I will maintain that dialogue and I hope that when he is working on something that he thinks would more directly impact the area of my work, that he would bring it to my attention as well. I believe he would do that.

Deputy M. Scott:

Yes, I feel there is a lack of clarity about your position on this, though, in terms of the extent to which you might wish there to be more work in terms of ... I hesitate to say the word "rent control" because, as I say, I am aware of the way in which there can be impacts in terms of maintenance and interest rates on returns for landlords as well. But as you have been requesting that people may not just be opportunist in terms of inflation rates, given the different circumstances in which people acquire property, I am wondering if you might perhaps state a bit more clearly what your position is in terms of the extent to which some sort of stabilisation might be encouraged?

The Minister for Economic Development, Tourism, Sport and Culture:

I do not really have a position at the moment because I have not been given an example of the type of rent stabilisation that is being thought of. I have researched rent control myself and there were many different ways to try and achieve it. Each of them has different impacts and different success rates. From what I have seen, most seem to have unintended consequences and therefore until the Minister for Housing and Communities comes forward and says: "This is what I am thinking about" or until someone explicitly says to me: "This is the type of rent control we would like to bring in", I do not have a strong position because I cannot sit there and say whether it is a good idea or bad idea until you have shown me what the idea is in the first place. If you are talking at a more theoretical level, I am open ... quite simply, Deputy Andrews said it before, there are market failures in terms of our rental sector in my view. Does that mean we have to intervene more directly? Possibly, but I do not know for sure that that is what we need to do.

Deputy M. Scott:

Thank you. We will need to move on to our other area. I feel that you have another follow-up question which we could ask briefly.

Deputy M. Andrews:

On rental controls, no.

Deputy M. Scott:

Okay, fine. I just have one more question here before we move on. Do you have information from business on what effect double digit inflation will have on the viability of some Jersey businesses if

their rental and lease agreements are linked to the Jersey R.P.I., as most of them are? I am just talking about numbers, estimates. You do not?

The Minister for Economic Development, Tourism, Sport and Culture:

No, I do not. Do you have any?

Deputy M. Scott:

Is there a way of ...

Chief Economic Adviser:

No, so obviously the feedback loop ... I am trying to expand my network quite recently so they tie into that a little bit, but I am quite reliant on politicians, particularly in terms of some of that feedback loop, talking to more organisations and more representative bodies as we go. It is not something that I have heard anything on. It could clearly possibly be an issue if they were passed on. Businesses are obviously operating in the market themselves. I would probably expect that to be more inflationary in terms of passing prices on as well, some of those inflationary pressures as opposed to perhaps business going under. But it is difficult to talk outside of any generalities on that.

[10:45]

Deputy M. Scott:

Mr. Holvey, you seem to be suggesting that you are looking into obtaining more information on that?

Chief Economic Adviser:

I am looking to expand my network, so improve my understanding of the Jersey economy all the time and obviously that takes a bit of time, especially with so much going on at the moment.

Deputy M. Scott:

Is there a possibility of using the statistical unit more in this respect?

Chief Economic Adviser:

I have a very close working relationship already with the director of statistics. We talk a lot about improving some of the economic data that we have. Obviously there are limitations. There are statistical limitations in terms of the size of the Island and collecting the right information is quite important as well because obviously when you only have a population of 100,000 it makes some of that statistically not accurate and therefore not worthwhile collecting in some instances. One of the things we do need to do is improve that data as well but then add on the qualitative information that

we can receive to either justify and prove the data that we are seeing or provide reasons for why it might not be accurate. That is my sort of network expansion and talking to politicians and events like this are really helpful in forming some of those future opinions.

Deputy M. Scott:

Yes, that is interesting and also that you are mentioning the need to verify data as well. Anyway, you have got a lot of work to do. Just moving on to Max again with some closing questions.

Deputy M. Andrews:

Yes. Obviously as part of the mini-Budget in terms of the businesses that you have been in dialogue with, what is the reception in regard to the 2 per cent social security reduction?

The Minister for Economic Development, Tourism, Sport and Culture:

I have not had a lot of feedback. I have seen your submissions or the submissions you, as a panel, have received, I should say. I find it interesting and again I have to go back to what this mini-Budget is. One of the complaints I saw was that why have not employers had a reduction in their contributions as well. One of the simplest answers is quite simply because this mini-Budget is focused on helping Islanders, employees, deal with the cost of living and reducing that social security contribution for employers would not necessarily have that direct impact. It is also important to realise that it is only a 3-month reduction in the social security contribution for employees and the reason that it is effectively in there is because the income tax deductions, for want of a better word, will not take effect until 1st January. So the social security contribution is being used effectively as a proxy to enable Islanders to feel an immediate benefit in their pay packets - well, immediate from October - so that they feel it straightaway rather than having to wait until January, because the cost of living is affecting us today. So it is not targeted at employers, it is targeted at employees and that is the way it is. It does not have an impact in that again from an employers' perspective it is maintaining the status quo. It is not changing anything for employers.

Deputy M. Andrews:

Do you believe next time potentially the measures could be enhanced and maybe more targeted to, say, lower earners? Given the timeframe was obviously more ... potentially there could have been more done to support those on lower incomes.

The Minister for Economic Development, Tourism, Sport and Culture:

It is quite difficult when you are using the tax system in this way because it affects all taxpayers or most taxpayers. Basically, all marginal rate taxpayers are affected and will benefit from this, including those on low incomes. The aim is principally to help those on low and to some extent middle incomes but, yes, there is an effect higher up. I am sure there are ways of finding to help

only low earners but I think in this case we need to help a wider range of people. We also have to remember that while people may be on higher incomes they often, as a result of those higher incomes, have gained greater liabilities and so their actual disposable cash every month may not be very much with it going off to pay mortgages, to pay various fees and things like this. So I do not think it is right to assume that just because you are on a higher income you have necessarily lots of disposable income and this should also help those people. That is where I talk about middle income people needing help as well, and this helps them as well. I think nothing is perfect in economic policy ever, and never has been, but I think this is a really good way of the Island using - something we have not talked about - the very few tools we have at our disposal to help deal with the cost of living. We do not have interest rates. We really have only the tax system and our tax system, because of its low, broad, simple - the important bit there being simple and fair - because we have a simple tax system, does not give us many levers either. We do not have tax rates. We do not have much in the way of corporation tax and we do not have levers we can pull to help businesses in different ways either. So I think we are using the levers at our disposal to best effect.

Deputy M. Andrews:

Did you speak to the Minister for Social Security in particular about businesses and also the social security reductions and also some of the other levers that potentially could have been used as well?

The Minister for Economic Development, Tourism, Sport and Culture:

Personally I did not because, again, I did not see this as being aimed at helping businesses in this way. This was to help employees rather than employers so, no, I have to say I did not.

Deputy M. Scott:

However, among the people that the mini-Budget might well have helped would be small businesses. Of course often these are receiving incomes that are not as much as many employees, so are you aware of any consultation that was done with businesses to see if adjustments to class 2 contributions could assist those businesses?

The Minister for Economic Development, Tourism, Sport and Culture:

I am not aware of any consultation in that way. What I am doing already is we are looking at ways to help businesses, and particularly small businesses, by trying to lighten the bureaucratic burden that is placed upon them. This is a more general piece of work outside of the scope of this mini-Budget. It is not linked to the mini-Budget, but that is one way that I believe we can help Island businesses and particularly small businesses where you have got the business owner most often doing 1,000 jobs, whether it is marketing, H.R. (human resources), pulling in the next sale. Trying to lighten the bureaucratic burden on them would have, effectively, a cash impact as well because

it would save them enormous amounts of time. That is a piece of work we are going to be doing this term.

Deputy M. Scott:

That sounds interesting. How are you actually doing this?

The Minister for Economic Development, Tourism, Sport and Culture:

We are at the very beginning phase of it, so it is to find out. The bit we are at at the moment is we need to find out what are the areas of most bureaucratic burden that businesses experience.

Deputy M. Scott:

Might you consider the class 2 contribution situation and basically how that compares in terms of the self-employed, say, plumber and the employee of the large business and how ...

The Minister for Economic Development, Tourism, Sport and Culture:

Having paid class 2 contributions myself, I appreciate that they can be difficult for businesses at times, but I also know at the moment it is not something that I am aware of us considering. I am open to all suggestions and I am happy to speak to the Minister for Social Security about that, but I personally think it is more likely that we would be able to achieve success in other areas such as lightening the bureaucratic load, et cetera. In politics as well I think it is also important to try to focus on those battles you can win and focus your area there because if you can win the battle then you have a positive impact whereas while a cause may be worthwhile, if you cannot win it then you do not gain a positive impact out of it. I have a funny feeling that class 2 social security contributions is a tough battle. I am not saying I am not willing to go down that road, I am absolutely, but it is a really tough one to win, I believe.

Deputy M. Scott:

Thank you very much. Generally I very much appreciate that you have been saying that the mini-Budget has been targeting certain people in terms of it was not really looking at the support for businesses as such, although where we are interested or have been interested is the indirect or direct impact in terms of businesses. My final question, you will be glad to hear. Are you intending to take specific steps to improve productivity in addition to the lightening of the bureaucratic load that you have mentioned and alleviate the staffing crisis in the private sector in the main Budget and during your term of office? If so, could you briefly tell us what?

The Minister for Economic Development, Tourism, Sport and Culture:

Certainly within the term of office, yes. I do not know if we will be able to get anything into this year's Government Plan, just again because of timeframes, but productivity and the wider question of trying

to increase Jersey's productivity for me is fundamentally important. It is one of the reasons why I wanted this job. It is a challenge, an enormous challenge. It is not just Jersey. Interestingly, Britain has had a terrible ... for the last about 50 years in terms of productivity decreasing over time, but Jersey has in the last 20 years ultimately had decreasing productivity as well. Now I know, and I am sure you will be aware, Chair, that rising interest rates will increase productivity at a headline level because the finance sector will be earning a lot more money, the banking sector specifically will be earning a lot more money without doing any more effort. That immediately increases productivity and you can see that our productivity really fell off a cliff when interest rates hit zero, but the trouble is we have interest rates rising so at the headline level productivity is going to rise but structurally nothing will have changed. So if interest rates ever go back down again, we will see Jersey's productivity continue to flatline or decrease again. The work I have in mind is we need to find a way of discounting the interest rate rises effect on productivity in order to deal with the structural decline in productivity that we have been seeing in Jersey over the past 10 or 20 years, and that is the bit I want to turn around. That is about encouraging businesses to adopt technology, encouraging businesses effectively to work smarter, I think, if you want to put a strapline around it, so to speak. That is the work I really want to do. It is not easy, it is never easy but it is about encouraging investment in research and development, it is about encouraging businesses to not look to just hiring another person as the way to earn more money. It is a really tough call but it genuinely is the challenge that I am up for so, yes, over the next 4 years that is something I will be working on.

Deputy M. Scott:

Minister, I appreciate you having taken up this challenge. I also am encouraged that you have mentioned that the way in which perhaps our economy has been described as a strong economy has been very much by reference to things like reserves rather than what we have achieved in terms of economic productivity outside measures that are beyond our control, such as the rise in interest rates. At one point you mentioned the approach of the Isle of Man and I am conscious that the Isle of Man, in managing its economy, has actually produced specific targets in terms of increase. Are you looking into that as a way of aiming to improve economic performance and measure it?

The Minister for Economic Development, Tourism, Sport and Culture:

An interesting question, I have got to admit, because when I saw the Isle of Man target ... I cannot remember who I sent a message to but I sent a message to someone saying: "That is really interesting, they have put a figure." I cannot remember the figure now. Was it £10 billion, something like that, a £10 billion economy by 2030, something like that?

Deputy M. Scott:

Yes, I can remember it is a percentage of G.D.P. (gross domestic product).

The Minister for Economic Development, Tourism, Sport and Culture:

I thought it was really fascinating that they put an actual number on it and quite a brave thing to do. Politically, is it a clever thing to do? I am not so sure and so I think you have to weigh that up. The moment you put a number there you are obviously setting yourself up for success or failure, dependent on whether you achieve that number or not. I agreed to look at their policies and you remind me I must do that. I need to look at their overall economic framework that they want to take them to this £10 billion to understand what they are saying in that. For us, in terms of productivity, I think it is possible, so rather than an overall G.V.A. (gross value added) figure for Jersey's economy, interest rates could theoretically take us there. It may be possible to have figures linked to productivity increases but I am someone who thinks if we had a wider tax base in terms of corporation taxes you could link tax credits, so to speak, or tax deductions to productivity increases and things like this. I think those are things that are possible but not while we do not have a corporation tax system. I am not advocating that we bring it in but that is how we could use it to encourage productivity, give people tax breaks and things like this for increasing productivity. This is one of the problems. We are going to be asking businesses to find more efficient ways of working and more productive ways of working but we are going to have very few tools to encourage them to do it. We have got the productivity support scheme at the moment but I do not think that really hits the mark, in my view, because it is just an amount of money sat there when you are saying to businesses: "Look, if you can come up with a good idea for increasing your own productivity, we will help you do that." I think, as I said earlier, when you are a business owner of a small business and you are doing the H.R., you are doing the marketing, you are doing the sales and you are delivering the product as well, you do not have a lot of time to sit there and think of smarter, faster, more productive ways of working.

[11:00]

So I think we need to find ways to encourage that, provide options that businesses have for improving productivity, providing incentives and also potentially providing sticks to improve productivity as well.

Deputy M. Scott:

Is that really the role of Government though, because basically when it comes to businesses and their agility and the competitiveness, often they do their own work in that respect? In terms of leadership, when it comes to managing businesses they do tend to have specific numbers as targets. They do tend to work with performance measures. While I very much appreciate the possible concerns that one might have as a politician of setting oneself up for failure by mentioning specific figures, at the same time might this not be a way of showing leadership and alignment with the way

in which businesses generally do run themselves and, therefore, to show true leadership in the business community? Basically I do believe, and might they not, that businesses themselves and business owners do realise that there are failures in certain projects but then we learn from them and grow.

The Minister for Economic Development, Tourism, Sport and Culture:

There is a lot in that. Yes, I think leadership is about saying this is the way forward and accepting that there may be failure. I just do not know if by setting a particular G.V.A. amount you are necessarily hitting all the areas that you would want to. You could have all one business come in and fulfil that G.V.A. total, just because it is a massive business and it has done it, but you will not necessarily have increased other things in the Island economically that you want to. As far as leaving productivity just down to the market, it is a bit like the rental sector. If the market was doing a great job of improving productivity, we would not have a productivity problem in Jersey. At the end of the day, we have seen productivity stagnate and decline over the past 10 to 20 years and that is outside the financial services sector, so completely discounting interest rates, but it is also the case within the financial services sector. The reason Jersey wants or needs increasing productivity is because we have a population that tells us we do not want to see a continually increasing population. In order to marry up the desire for constant and increased economic growth, without a constant and increasing population growth, the only way to do that is to increase business productivity. That is why I take on the challenge because I am happy ... if Islanders say: "You know what, 200,000, 250,000 people, that is fine", that solves an economic problem really easily. We just continue bringing in people to grow our economy, but Islanders are not saying that. They say they want a stable population and that means, therefore, we need to increase productivity growth and businesses have not been doing that over the past 20 years. The figures show us that, so it does seem to me that there needs to be some government leadership in trying to help businesses increase that productivity.

Deputy M. Scott:

What would you say would be the main reason why they have not achieved that?

The Minister for Economic Development, Tourism, Sport and Culture:

You would have to ask businesses. I could not say exactly why. I would say at the end of the day our economic growth has been based on population growth. At the top level that is what has been happening. Why businesses have not increased productivity significantly I could not say.

Deputy M. Scott:

Minister, we look forward to working with you on this journey.

The Minister for Economic Development, Tourism, Sport and Culture:

Thank you.

Deputy M. Scott:

Have you got any more questions?

Deputy M. Andrews:

No, all done.

Deputy M. Scott:

Thank you very much for attending this review and this hearing. Thank you to the public for showing some interest and anybody else who watches this hearing, which I now declared closed. Thank you very much.

The Minister for Economic Development, Tourism, Sport and Culture:

Thank you.

[11:03]